

Service Date: November 30, 1994

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of the Application)	UTILITY DIVISION
of the MONTANA POWER COMPANY for)	DOCKET NO. 94.8.30
Authority to Increase Rates for)	ORDER NO. 5800b
Electric Service.)	

* * * * *

INTERIM ORDER

INTRODUCTION

1. The Montana Power Company (MPC or Applicant) filed an application on August 22, 1994, for increased electric rates and revenues. The application was assigned Docket Number 94.8.30.
2. MPC requested increased electric annual revenues of \$30,591,053, which is an increase of 9.31 percent on an equiproportional basis. Additionally, MPC requested that the Commission authorize an interim increase in annual revenues of \$16,728,883 for the electric utility. MPC used a calendar 1993 test period.
3. The Montana Consumer Counsel (MCC) filed its response to MPC's application on November 21, 1994, recommending that the Commission in a final order increase the annual electric revenues of MPC by \$2,276,367.
4. The Commission has computed the interim for the electric utility using established practices for establishing interim relief. The Commission reviewed and relied

upon the prefiled testimony, exhibits and data responses of MPC and MCC. The resulting interim increase to the electric revenue requirement is \$7,642,582. After the REC separation (MPC's REC customers are subject to FERC jurisdiction and, as such, it is necessary to separate these customers' portion of the total cost of service to arrive at the Commission's jurisdictional retail revenue requirement. The REC costs are identified and separated utilizing the allocated cost approach employed by FERC), the resulting revenue requirement is \$7,694,643.

FINDINGS OF FACT

IRRIGATION LOAD ADJUSTMENT

5. The Commission included an irrigation load adjustment for interim purposes to reflect these seasonal customers. MPC interpreted Order No. 5709d to mean irrigation customers connected to the system on December 31, 1993. Only 25 irrigation customers were connected to the system in December. However, the other irrigation customers are seasonal customers with an earlier year end and should be included to reflect a normal year's sales volumes. This adjustment amounts to a decrease in the revenue requirement of \$4,794,635.

IDAHO PURCHASE ADJUSTMENT

6. The Idaho Purchase Adjustment amounts to a decrease in the revenue requirement of \$1,544,438, as agreed to by MPC and the MCC. MPC will update its numbers to reflect this adjustment in rebuttal testimony. Since the original filing, there was a renegotiation of the contract price of the power. The old price was 29 mills/kWh and the

new price is 25.48 mills/kWh (WAP-12, Line 14). The Commission finds that the Idaho Purchase update is appropriate.

MPSC/FERC PLANT DIFFERENCE ADJUSTMENT

7. The MPSC/FERC Plant Difference Adjustment amounts to a decrease in the revenue requirement of \$1,602,186. Because the amortization of the original amount ends in January 1995, the Commission removed all but the amount left to recover between now and January 1995.

LABOR ADJUSTMENT

8. The Labor Adjustment amounts to a decrease in the revenue requirement of \$297,000. MPC had three higher level employees retire in 1993, and two other employees transfer and did not fill these positions. The Commission finds that it is appropriate to remove them from the test year. Two new employees hired in 1993 were included at the level at which they were hired. This adjustment more accurately reflects labor expense in the test year.

FUEL ADJUSTMENT

9. The Fuel Adjustment amounts to a decrease in the revenue requirement of \$515,404 to reflect the price decrease MPC paid for coal from 1993 to 1994. This adjustment reflects the current amount that MPC is paying for the fuel and transportation.

COLSTRIP 1 & 2 ROYALTIES ADJUSTMENT

10. The Colstrip 1 & 2 Royalties Adjustment amounts to an increase in the revenue requirement of \$104,641. MPC included the royalties for the entire project in its filing, while MPC only owns 50 percent, thus overstating the royalties by a factor of two.

ASSOCIATED MOUNTAIN POWER SYSTEMS (AMPS) LINE ADJUSTMENT

11. The Associated Mountain Power Systems Adjustment decreases the revenue requirement by \$274,898 to correct a mistake made by MPC in its original filing for the AMPS line rental. MPC included the entire amount to be paid in 1994 as an adjustment to the 1993 actual amount.

REGULATORY EXPENSE ADJUSTMENT

12. The Regulatory Expense Adjustment amounts to a decrease in the revenue requirement of \$163,156 to correct an error made by MPC in calculating this adjustment in its original filing.

MISSION VALLEY POWER (MVP) SALE ADJUSTMENT

13. The Mission Valley Power Adjustment amounts to a decrease in the revenue requirement of \$24,602 to update to the latest rate available (September 1994), which was not available at the time of the original filing.

PROPERTY/LIABILITY INSURANCE ADJUSTMENT

14. The Property/Liability Insurance Adjustment amounts to an increase in the revenue requirement of \$18,878 to account for the latest available 1994 insurance premiums as provided by MPC in a data request to the Montana Consumer Counsel.

ATTRITION ADJUSTMENT

15. The Attrition Adjustment decreases the revenue requirement by \$87,751 to bring the attrition adjustment in compliance with the Commission's order in Docket No. 93.6.24.

DISCUSSION AND FURTHER FINDINGS

16. Based on the above Findings of Fact, the Commission finds that an increase in MPC's annual electric revenues in the amount of \$7,694,643 is necessary to earn an overall rate of return of 9.09 percent as approved in Docket No. 93.6.24, Order No. 5709d.

17. The Commission finds that the interest rate to apply in calculating any refunds that might result from this Interim Order will be calculated at the return on equity level used in this Interim Order of 11.00 percent. This is the return on equity approved by the Commission in Docket No. 93.6.24, Order No. 5709d.

18. The Commission finds that MPC must apply this annual revenue increase to all customer classes on an equal percentage basis. The Commission directs MPC to file compliance tariffs reflecting the interim increase for the electric utility.

CONCLUSIONS OF LAW

1. The Applicant, Montana Power Company, provides electric service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the MPC's Montana rates and operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides that the Commission may, in its discretion, make temporary approvals of requests pending a hearing or final decision.

4. The rate levels and spread approved in this Order are a reasonable means of providing interim relief to MPC. The rebate provisions of Section 69-3-304, MCA, protect ratepayers until there is a final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Applicant, Montana Power Company, shall implement on an interim basis rates designed to increase annual Montana jurisdictional electric revenues by \$7,694,643 (after the REC allocation) on a uniform percentage basis.

2. The Applicant shall adhere to and abide by all Findings of Fact in this Interim Order, and rate schedules shall comport with all Commission determinations set forth in this Interim Order.

3. The Applicant must file tariffs in compliance with the Findings of Fact in this Interim Order.

4. Nothing in this Interim Order precludes the Commission from adopting in its Final Order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this Interim Order.

5. Any refunds associated with the annual revenue increase granted in this Interim Order will be computed at the level of return on equity approved in this Interim Order of 11.00 percent.

6. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

7. The interim annual revenue increases granted in this Interim Order are to be effective for service rendered on and after November 28, 1994.

DONE IN OPEN SESSION at Helena, Montana on this 28th day of November, 1994,
by a 3-2 vote.

BY THE ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ANDERSON, Chairman

BOB ROWE, Vice Chairman
(Voting to Dissent, Written Dissent Attached)

DAVE FISHER, Commissioner

NANCY McCAFFREE, Commissioner
(Voting to Dissent)

DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

DISSENT OF COMMISSIONER ROWE

I strongly dissent from the Commission's decision to grant Montana Power Company an interim increase of over \$7.6 million. I would have denied any interim increase.

The final order in MPC's last revenue requirements case, Docket 93.6.24, was issued on April 28, 1994. The order on reconsideration was issued June 15, 1994. That case was decided under the Commission's optional filing rules, which allow utilities to update test year information to year-end figures, which are more current than average year figures and are more favorable to increasing-cost utilities. The optional filing rules also contemplate that cases will be filed every other year.¹

¹In my opinion in Docket 93.6.24 I suggested that there "would be much less justification for granting interims were revenue requirements cases filed annually." (p. 11) It is not necessary to reargue my points of disagreement with that order or to make any judgments about the merits of positions in this case in order to conclude an interim is not justified.

Section 69-3-304, Montana Code Annotated, provides that the Commission "may, in its discretion" order temporary increases. The Commission's interim rules, ARM 38.5.501 to .508 were last amended in 1982. Those rules were drafted in a time of high inflation and rapidly-increasing utility costs. They were designed for use with average test years. While the rules provide a formula for calculating interim increases they emphasize the

This case was filed on August 22, 1994, only two months after the order on reconsideration in the previous case. A final order is due in this matter by May 22, 1995, only a year and a month after the final order in the previous case.

An adjusted test year is intended to estimate the costs a prudent utility will incur in the year following the final order. Particularly where that test year has been updated to year-end information, there is no justification for approving an interim rate increase seven months into that year. It is simply unfair to the customers.

RESPECTFULLY SUBMITTED this 28th day of November, 1994.

BOB ROWE
Vice Chair

Commission's discretion both in determining whether an interim should be granted and in modifying the procedure through which one could be granted. In a number of dissents from interim approvals and elsewhere, I have urged that the Commission review its general policy on interims. This is an important project which the Commission should undertake as soon as possible.